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Liquid assets? How fine wine can age well as an investment
By Rob Burgess
August 28, 2025, 3:57 p.m. EDT

For many wine enthusiasts, the accumulation of rare vintages doesn't start out as a well thought out investment strategy.

But what typically starts as a passion project often slowly turns into a collection that becomes quite valuable.

For example, Brennan Decima, owner of Decima Wealth Consulting in St. Petersburg, Florida, said he has a handful of clients who are "quite proud" of the wines they have accumulated over the years.

"Investing in wine tends to be a more exciting conversation starter than telling people you hold an index fund," he said.

But this sort of collection "offers more than luxury sips," said Annie Edgerton, a wine expert with Flatiron Wines & Spirits in New York City: "It presents an increasingly sophisticated alternative investment class."

Although global demand fluctuates, influenced by market trends and world economic shifts, supply is naturally limited by vintage variations and production constraints, said Edgerton.

"Therefore, investing in the right wines can yield significant long-term returns," she said.

However, clients who want to maintain the value of their collections must perform due diligence and maintain proper storage to ensure the longevity of their investments.

What to look for in a wine
A dependable way to grow a wine investment is to collect bottles from high-end producers with a track record of excellence.

These can include such staples as Burgundy, France's Domaine de la Romanée-Conti; Tuscany, Italy's Masseto and Napa, California's Screaming Eagle, among others.

These top-shelf producers offer a low-risk opportunity, said Edgerton, who additionally recently took over her family's business, Edgerton Wine Appraisals. (She is also a master of wine candidate at the Institute of Masters of Wine, holds a Wine & Spirit Education Trust diploma in wines and spirits and is a sommelier certified by the Court of Master Sommeliers.)

"Yes, one needs to monitor trade structures and auctions to be alerted to potential market trends and softening, but classic producers at the top of their game are likely to stay there," she said.

The downside is that they are already pricey, so growth potential may be limited.

"And production is so low, they may be difficult to acquire in the first place," Edgerton said.

What ultimately determines collectability is limited availability, high quality and the ability to improve or hold for a long time, she said.

"Simply, if many people want to drink or own something that is well-regarded, difficult to obtain and has the potential to provide enjoyment for an extended period, they'll pay for the opportunity," she said. "Most of our clients appreciate the dual nature of collecting wine; the potential to improve their investment, and the pleasure of sharing some special bottles with friends and family along the way."

Storage is key

Much like other temperamental collectibles such as cars and guitars, wine requires proper storage.

Room temperature will prematurely age the wine. Therefore, one of the main issues is maintaining the wine at a constant temperature, which many experts feel is somewhere around 55 degrees Fahrenheit.

Edgerton said she has seen mistakes play out all too often. One of the most frequent tasks she handles as a wine appraiser is tasting wine for damage.

Clients should be wary of natural basements that are "always cool," as they are still subject to temperature fluctuations that can accelerate a wine right past its drinking window, she said.

"A seemingly minor heat event like a power outage affecting cooling to the wine cellar for a few days can result in a total loss of value," she said.

How much can the wine really be worth?

When a collector wants to liquidate their wine investments, how can they ensure the highest return?

For an investment cellar, reputable auction houses offer the most reliable avenues to buy and sell, said Edgerton. Most scrutinize provenance, condition and authenticity to help guard against problematic wines.

"There are also some merchants, online and brick-and-mortar, who specialize in collectible wines, but due diligence should be carried out to ensure you are

buying from a fair and respected seller," she said.

Sale prices for rare wines vary widely based on several factors and can fluctuate.

For example, when the 2005 Domaine de la Romanée-Conti (a red Burgundy) first came onto the secondary market in 2009, it sold at auction in the U.S. around the $10,000 to $11,000 per bottle range. Recent U.S. sales were in the $17,000 to $22,000 range.

On the other hand, vintage ports are often prized for their longevity, and while they are appreciated by collectors, they don't see much growth, said Edgerton. Both the 1994 Taylor and 1994 Fonseca entered the market in the late 1990s at around $110 to $120 per bottle, and are still traded at that range today.

Like the entire alcohol market, in the background is a downward trend for all wine sales worldwide, recently reaching a six-decade low.

Similarly, many have bemoaned the softening in prestige and prices for Bordeaux, for example, seeing it trend downward over recent years, said Edgerton. However, the 2000 Château Mouton Rothschild sold at its early auctions in the $350 to $420 range, and recently around $1,500 to $1,700.

"A savvy investor would likely be quite pleased with that return, in spite of the trade's somewhat gloomy outlook," she said.

'Drinking for free' may be the best a collector can hope for

Of course, these returns are predicated on the ability to purchase top wines early and to be patient for years, if not decades, said Edgerton.

"But if an investor can acquire two cases of a well-regarded wine upon release, and drink a bottle from one every year or two for the next 15 years, enjoying the evolution of a quality wine over its lifetime, then sell the other case for two times or more what he or she paid, I don't think even the wealthiest collector minds 'drinking for free,'" she said. "At the end of the day, wine is a special commodity, with the ability to provide profit and pleasure, as long as it's well taken care of.

Even among his clients who prize their collections, Decima said it's rare for an investor to looking at wine as a primary factor in their financial plan.

"Wine isn't something that my clients are banking on to pay for their retirement or cover their monthly bills," he said.